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RUCNARF/ASEAN REGIONAL FORUM COLLECTIVE  
RUCNIRA/IRAN COLLECTIVE  
RUEHRL/AMEMBASSY BERLIN 0215  
RUEHNE/AMEMBASSY NEW DELHI 0882  
RUEHFR/AMEMBASSY PARIS 0223  
RUEHRO/AMEMBASSY ROME 0207  
RUEHLO/AMEMBASSY LONDON 0593

S E C R E T SECTION 01 OF 02 KUALA LUMPUR 000138

SIPDIS

STATE PASS FEDERAL RESERVE AND EXIMBANK  
STATE PASS FEDERAL RESERVE SAN FRANCISCO TCURRAN  
SINGAPORE PASS TO SBAKER  
TREASURY FOR FINCEN,OASIA, AND IRS

E.O. 12958: DECL: 02/25/2019

TAGS: [KNNP](#) [MNUC](#) [IR](#) [GM](#) [ECON](#) [XB](#) [XC](#) [XE](#) [XG](#) [MY](#)

SUBJECT: AMBASSADOR MARCIEL'S MEETING AT CENTRAL BANK ON  
BANK MELLAT

REF: A. A. SECSTATE 13998 -- BANK MELLAT DEMARCHE  
[1](#)B. B. KUALA LUMPUR 113 -- AMB KEITH'S MEETING WITH  
MFA SECGEN RASTAM  
[1](#)C. C. KUALA LUMPUR 122 -- AMB KEITH'S MEETING WITH  
DPM NAJIB

Classified By: CHARGE D' AFFAIRS ROB RAPSON FOR REASONS 1.4 (B) AND (D)

[1](#)1. (S) Summary: In a February 23 meeting with senior Bank Negara Malaysia (BNM) officials and the DG of the Labuan Offshore Financial Services Authority (LOFSA), visiting Ambassador for ASEAN Affairs and DAS for Southeast Asia Scot Marciel conveyed U.S. concerns about reports of the imminent opening of a Bank Mellat branch in Labuan. Marciel emphasized Malaysia was facing substantial reputational risk with such a move and asked that Bank Negara reject the license application. While BNM Deputy Governor Zamani did not respond directly to Ambassador Marciel's points, his comments suggested that Malaysia was still proceeding with an approval for Bank Mellat. Zamani pointed out that Malaysia had a solid regulatory system; that other countries were doing business with Iran and, as a small, trade-dependent nation, Malaysia could not afford to "miss the boat." Speaking outside his Bank Negara brief, Zamani opined that the U.S. should be more "objective," not sanctioning one country for pursuing nuclear weapons while allowing others to have them. (Note: Economic Counselor provided ref A non-paper to BNM Deputy Governor Ooi Sang Kuang on February 19. End note).

[1](#)2. (S) COMMENT: The best that we can determine is that Malaysia has not given final approval to Bank Mellat,s subsidiary in Labuan, but Zamani's remarks were not encouraging. Given what we have heard recently from the MFA and the Deputy Prime Minister in response to our expressed concerns (refs B and C), the GOM is evincing no signs at this stage, prior to the upcoming leadership transition, that it is willing to revoke the Bank Mellat license outright. At best, there may be further delay as the Malaysians digest the import of our approaches and those of others (e.g., the Euros and Australians). END SUMMARY AND COMMENT.

[1](#)3. (S) During his February 23 call on Central Bank Deputy Governor Zamani Abdul Ghani, visiting US Ambassador for ASEAN Affairs and DAS for Southeast Asia Scot Marciel conveyed ref A points and specifically asked that Malaysia reject Bank Mellat,s application for a license to open a subsidiary in Labuan. Zamani responded only indirectly to Marciel,s

points/request, twice saying "We have shown ourselves to be definitive in what we want to do." (Comment: The meaning of this comment is unclear, but may have been intended to imply that the approval was definite when in fact it might not be. End comment.) Zamani did not provide any information on the status of Bank Mellat's application, but Wan Nazri, Director of Malaysia's Financial Intelligence Unit, indicated that he would follow up on the points contained in our non-paper.

¶4. (S) Zamani explained that Bank Mellat's subsidiary in Labuan, Malaysia's offshore financial services center, would be required to comply with national laws and regulations including the Anti-Money Laundering and Counter-Financing of Terrorism Act (AMLA) and would be subject to oversight by GOM regulators including the central bank, the Islamic Financial Services Board, and LOFSA. He pointed out that Malaysia had done much better than other nations in the region on its Mutual Evaluation by the Asia Pacific Group, an intergovernmental body styled after the Financial Action Task Force, and that its regulatory system was solid.

¶4. (S) Ambassador Marciel agreed that Malaysia had done very well for itself in building up its financial services sector. He said Bank Negara Governor Zeti was held in high regard in the international community, and Malaysia had made significant progress in positioning itself as a global hub for Islamic finance. It would be a shame to risk Malaysia's excellent reputation by licensing a subsidiary of Bank Mellat to operate on Malaysian soil. EconCouns added that, although the UN Security Council had not yet sanctioned

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Bank Mellat, the information the U.S. was sharing with the Malaysia Government laid out numerous links between Bank Mellat and entities under UN sanctions, and the UN may sanction Bank Mellat. It was Malaysia's decision to act on this information, or not, he added.

¶5. (S) Zamani reacted to this point and said the U.S. should be more objective; that it was unfair to sanction one country and not sanction "another country in the same region" for doing the same thing. "Both sides must obey international law," he said. Zamani said he noted our concerns but that sometimes the world was not fair. Malaysia does have a solid regulatory system, he reiterated, adding, "Iran is a big country and we must not miss the boat. Everybody is doing business there. We are a small trading nation and we have to consider the economy." Alluding to Malaysia's Muslim-majority population, Zamani said, "We also have to consider where our affinities lie." He added, "We are frightened as well of nuclear proliferation; that is why ASEAN has a no-nuclear policy. Warships go through the Straits of Melacca and we have no control over that." (Comment: Zamani is one of three Deputy Governors at Bank Negara. He is a civil servant who has worked his way up through the ranks. He oversees the Financial Intelligence Unit, Special Investigations, and Banking Supervision, among other departments. While Ambassador Marciel spoke, Zamani was reviewing other documents before making his points, some of which clearly were outside the purview of the central bank. It is likely that he had already reviewed our non-paper, which EconCouns provided to Bank Negara last week, and was delivering points from either the MFA or the Prime Minister's Department. End comment.)

¶6. (S) LOFSA Director General Azizan Abdul Rahman asked about Bank Mellat's branches in London and South Korea. Marciel explained that the current focus was to discourage new licenses, and later if Bank Mellat were sanctioned by the UN, more pressure would be put on existing branches. EconCouns noted that the UK was very concerned about the activities of Bank Mellat and British regulators were scrutinizing the bank very closely.

¶7. (U) Other Malaysian participants included: Mr. Wan Mohammad Nazri Wan Osman, Director of Malaysia's Financial Intelligence Unit (FIU); Mr. Ismail Alowi, Director of Bank Negara's International Department; Mr. Albert See Choon Kwang, Manager, Bank Negara's Economics Department; and a number of other Bank Negara staff including a representative of the Governor's office.

¶8. (U) Ambassador Marciel did not have an opportunity to clear this message before his departure from Malaysia.  
RAPSON